

October 11, 2014

VIA ELECTRONIC FILING

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th St. SW
Washington, DC 20554

Re: Ex Parte Communication (WC Docket No. 13-184)
Modernizing the E-rate Program for Schools and Libraries

Dear Ms. Dortch:

On October 8, 2014, I spoke via teleconference with Patrick Halley, Lisa Hone, and Jay Schwarz, (Wireline Competition Bureau), Jonathan Chambers (Office of Strategic Planning and Policy Analysis), and Kate Domouchel (Office of General Counsel).

First, I shared my concern over the Commission's failure to commit to any amount of funding for the last three years of the E-rate program's new, five-year, Category 2 budget period. Because of this uncertainty, I explained, the E-rate community has come to see the first two years of the five-year period -- the only ones with any actual funding attached to them -- as a two-year "pilot" program for Category 2 budgets.

I repeated for them what dozens of applicants from across the country have been telling me -- namely, that they are approaching FY2015 and FY2016 as if those will be their only two opportunities to receive E-rate support for on-campus connectivity. What I have been hearing repeatedly is that it is much too risky to wait and see whether and how much funding for those years actually materializes.

Because of the uncertainty and confusion surrounding this important issue, many applicants have told me that they plan to accelerate their Category 2 investments into next year (and the year after), rather than distribute the work more evenly over a five-year period—which many of them would prefer to do, and likely would do, if they knew that there would be a reasonable amount of funding for Category 2 services available in budget years three, four, and five. Accordingly, I urged the Commission to take action now to eliminate what the E-rate community has come to see as a *de facto*, two-year, pilot program for Category 2 E-rate budgets, as opposed to a five-year, budget period, which is what, I am certain, the Commission intended.

Next, and for related reasons, I encouraged the Commission to increase the E-rate funding cap permanently. In this regard, I shared all of the following facts and information:

- In a nationwide survey of applicants, 32% of respondents estimated that their Internet access and telecommunications fees would increase by 10% or more over the next 5 years¹.
- In the same survey, only 10% of respondents ranked their on-campus data network as “future-ready”. Even more troublesome, 43% of applicants reported that their existing data network was lagging behind their current needs².

The demand for E-rate discounts for on-campus connectivity has been about two billion dollars or more every year since 2007. While I appreciate that the Commission has identified an additional \$1 billion per year for Category 2 discounts, unfortunately, this amount is likely to fall well short of actual demand.

I explained that Funds For Learning has prepared an estimate of the demand for Category 2 support using historical Priority 2 funding requests. Here is that estimate, along with what went into it:

- Applicants who submitted internal connections funding requests in FY2012 to FY2014 reported per student, pre-discount expenditures of \$215.93³.
- Assuming that there are 51,872,111⁴ students benefiting from the E-rate program, the total pre-discount expenditure for on-campus connectivity would be \$11.20 billion.
- FFL estimates the average E- discount rate for Category 2 funding requests will be 69.49%.
- Multiplying the nationwide \$11.20 billion total by the average E-rate discount rate of 69.49% yields a total potential demand (over the life of I.T. infrastructure) of \$7.78 billion.
- Based on a five-year replacement cycle, the total funding required for Category 2 discounts is \$1.56 billion (i.e. one-fifth of \$7.78 billion).

In view of the foregoing and on behalf of Funds For Learning, I recommended that the existing annual funding cap be increased permanently by at least \$1.56 billion to account for this demand. This would be in addition to the \$1 billion of annual Category 2 support already identified for FY2015 and FY2016.

I believe strongly, I told the group, that by (1) removing the *de facto* budget “pilot” for Category 2 support; (2) increasing the permanent funding cap by at least \$1.56 billion; and (3) allowing for a temporary surge in FY2015 and FY2016 support, the Commission could reach its goal of bringing sufficient network capacity to all of America’s schools and libraries.

¹ See survey results, <http://apps.fcc.gov/ecfs/document/view?id=7521329013>, p.12

² *Ibid.*, p. 13

³ See <http://www.fundsforlearning.com/blog/2014/10/calculating-the-cost-of-student-connectivity>

⁴ See <http://apps.fcc.gov/ecfs/document/view?id=7521139031>, pg. 3

Pursuant to Section 1.1206 of the Commission's Rules, this letter is being filed electronically.

Sincerely yours,

/s/ John D. Harrington

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